



**Investment Office**

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**June 19, 2006**

**AGENDA ITEM 8a**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Selection of Third-party Administrator
- II. PROGRAM:** Supplemental Savings Programs Division
- III. RECOMMENDATION:** Information Only

**IV. ANALYSIS:**

**Background**

The Supplemental Savings Programs Division (SSPD) contracts for third party administrator services with CitiStreet. These services include participant recordkeeping, customer service, marketing and enrollment for the CalPERS 457 Program. CitiStreet also performs participant recordkeeping for the Peace Officers' and Firefighters' Defined Contribution Program. Staff informed the Committee at its October 17, 2005 meeting that the existing contract with CitiStreet would be expiring on June 30, 2006 and that Staff would be preparing a request for proposals for this contract. At its April 19, 2006 meeting, the Board approved a 6-month extension of the existing contract to December 31, 2006 to facilitate negotiations and cover the transition and conversion of the plans to a new recordkeeping, custody, and investment platform if necessary.

Staff developed the request for proposals using the Competitive Negotiations Solicitation (CNS) process which allows CalPERS to hold discussions with the highest-ranking finalists and negotiate an agreement that best meets CalPERS' business needs at a fair and reasonable compensation. Staff was assisted in the development of the CNS and in the evaluation of responses by CalPERS' pool consultant, RV Kuhns and Associates.

The CNS was released and made available on the CalPERS website for downloading on April 6, 2006. The CNS was also sent to six firms that had previously requested copies. In addition, the CNS was advertised in Pensions and Investments and in a general press release issued by CalPERS' Public Affairs Office. Prospective proposers were asked to submit their intent to bid by April 13, 2006 and six firms did so. One firm – CitiStreet, the current administrator – submitted a proposal by the final filing date of May 17, 2006.

### **Discussion**

The CNS solicited proposals from qualified firms to provide (1) plan administration recordkeeping, custody; and investment products; and (2) marketing, education, and customer service for all defined contribution and deferred compensation plans administered by CalPERS including the CalPERS 457 Plan, the Peace Officers Firefighters Plan, and the Supplemental Contributions Plan. Proposals were requested on both a bundled and unbundled basis, specifically to allow additional firms to propose who might otherwise be unable to perform the entire range of services under a fully bundled contract but could perform portions of the services on an unbundled basis. The CNS requested all proposers to:

- Provide Systems, Services, and Investments customized to CalPERS needs and branded and represented as CalPERS'
- Provide the same System, Service, and Investment capabilities for all CalPERS plans and accommodate variations to respond to specific market demands
- Demonstrate the ability to deploy automated solutions to recordkeeping and plan administration
- Demonstrate a client servicing philosophy that is expected to be best in class and incorporate the industry's best practices.
- Keep participant fees below 1% for the 457 Plan and around 1% or less for the POFF, SCP and other CalPERS Plans

CitiStreet's technical proposal for fully bundled services met the CNS' minimum qualifications and was read and scored by staff according to the criteria listed in the CNS. The scoring categories included:

1. Organization & Staffing
2. Core Services
3. Investment Management
4. Plan Marketing
5. Participant Communications

Staff then scored CitiStreet's fee proposal and combined the two scores according to the CNS' stated evaluation process. Finally, staff (with RV Kuhns personnel in attendance) conducted a finalist interview with CitiStreet and added the interview score to the scores for the technical and fee proposals to reach a grand total score for CitiStreet's proposal. This completed the proposal evaluation process outlined in the CNS.

Staff found the CitiStreet proposal responsive to the CNS' requirements for CalPERS branding and the flexibility to accommodate CalPERS-managed funds in the Supplemental Savings Programs' investment line-up, the application of automated solutions to recordkeeping and plan administration, the employment of advanced communications capabilities, in association with CalPERS' Public Affairs Office, to market the programs, and the attenuation of participant fees.

#### **V. STRATEGIC PLAN:**

This item supports Goal V, by providing sustainable pension benefit products and services responsive to and valued by members, employers, and stakeholders.

#### **VI. RESULTS/COSTS:**

Based on the responsiveness of CitiStreet's technical and fee proposals to the CNS' requirements, and the Finalist Interview, Staff will proceed to enter negotiations with CitiStreet to conclude an agreement for the full range of services solicited by the CNS. Negotiations will focus on finalizing the investment product line-up, the implementation timeline, the communication campaign, the cost and revenue sharing relationship between CalPERS and CitiStreet, and any terms and conditions remaining to be settled beyond the sample contract proposed in the CNS. The contract award will be made upon the successful conclusion of negotiations.

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